

AGENDA: April 22, 2003

4.5

CATEGORY: Consent

DEPT.: Community Development

TITLE: Subordination of CDBG Agreement with the
Emergency Housing Consortium

RECOMMENDATION

Authorize the City Manager to execute the necessary documents in order to subordinate the City's \$125,000 Community Development Block Grant (CDBG) loan to Emergency Housing Consortium (EHC) to other loans totaling \$4.8 million.

FISCAL IMPACT

None. The City's \$125,000 CDBG loan to EHC is secured by the property at 2011 Little Orchard Street in San Jose which serves as a regional homeless shelter. The City's loan is currently secured in the third position, subordinate to loans from the City of San Jose and City of Santa Clara totaling \$3.8 million. The City of San Jose will be providing EHC with a new \$1 million loan for construction of 10 family housing units on the 2011 Little Orchard Street site. This new loan will result in Mountain View's CDBG loan being subordinate to loans totaling \$4.8 million. Mountain View's CDBG loan will remain secured in the third position.

The Mountain View CDBG funds for this project were provided as a deferred forgivable loan, with the condition that the site continue to be used as a homeless shelter. All the cities that have funded this project have a similar condition in their loans, including the Cities of San Jose and Santa Clara, which have their loans secured prior to Mountain View's. Due to the use of the site as a homeless shelter, it is not likely that there would be enough value in the property to support all of the loans. The CDBG loans have been secured against the property in order to maintain the existing use of the site as a homeless shelter, not with the expectation of a monetary payback in the event of a default.

BACKGROUND AND ANALYSIS

2011 Little Orchard Street in San Jose is the site of the Boccardo Reception Center, a regional homeless shelter for individuals and families, which is owned and operated by the Emergency Housing Consortium. Over 100 Mountain View homeless persons are provided shelter at the Boccardo Reception Center annually. This shelter has been in operation since 1997 and was developed by EHC with financial assistance from the City of San Jose and a number of other jurisdictions as well as foundations, corporations and other private donations. In 1997, the City of Mountain View provided \$125,000 in CDBG funds to assist in the development of this shelter. The funds were provided in the form of a deferred, forgivable loan for a 10-year period which expires November 30, 2007. The City's loan agreement with EHC specifies that EHC cannot further encumber the property without the written consent of the City.

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The City of San Jose has awarded EHC a grant of \$1 million from the City's Redevelopment Agency funds for the construction of 10 studio apartments on the site to be used as transitional housing for families. The cost of this project is expected to be slightly over \$1 million and EHC will be contributing the balance needed for the project, expected to be up to \$60,000.

The City of San Jose originally provided \$3.6 million for development of the shelter and this loan is currently secured in the first position. The City of San Jose intends to amend their existing loan documents with EHC and record a new deed of trust in the first position which will include the additional \$1 million debt. The securing of San Jose's deed of trust in the first position is consistent with the County-wide practice for multijurisdictional projects of recording the deeds of trusts in the order of the loan amount. Mountain View has followed this practice along with the other cities in the County for the past 10 years on all multijurisdictional-funded projects.

Besides the City of San Jose, the cities of Santa Clara, Sunnyvale and Palo Alto as well as Santa Clara County have provided funding for the development of the Boccardo Reception Center. In order to secure the additional \$1 million construction loan from San Jose, EHC is requesting permission of all the jurisdictions, including Mountain View, to subordinate their 1997 deeds of trust to this new loan (reference letter from EHC, Attachment 1). It is not expected that EHC will encounter any problems in obtaining the necessary subordinations from the other cities.

The proposed development of 10 transitional housing units will provide much-needed housing for families. A new two-story building will be constructed in the parking lot adjacent to the shelter to accommodate these new units. The development of these units is not anticipated to interfere with the ongoing operation of the shelter. The shelter will remain open during the construction and services will not be affected.

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PUBLIC NOTICING—Agenda posting.

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Attachment 1. EHC Letter